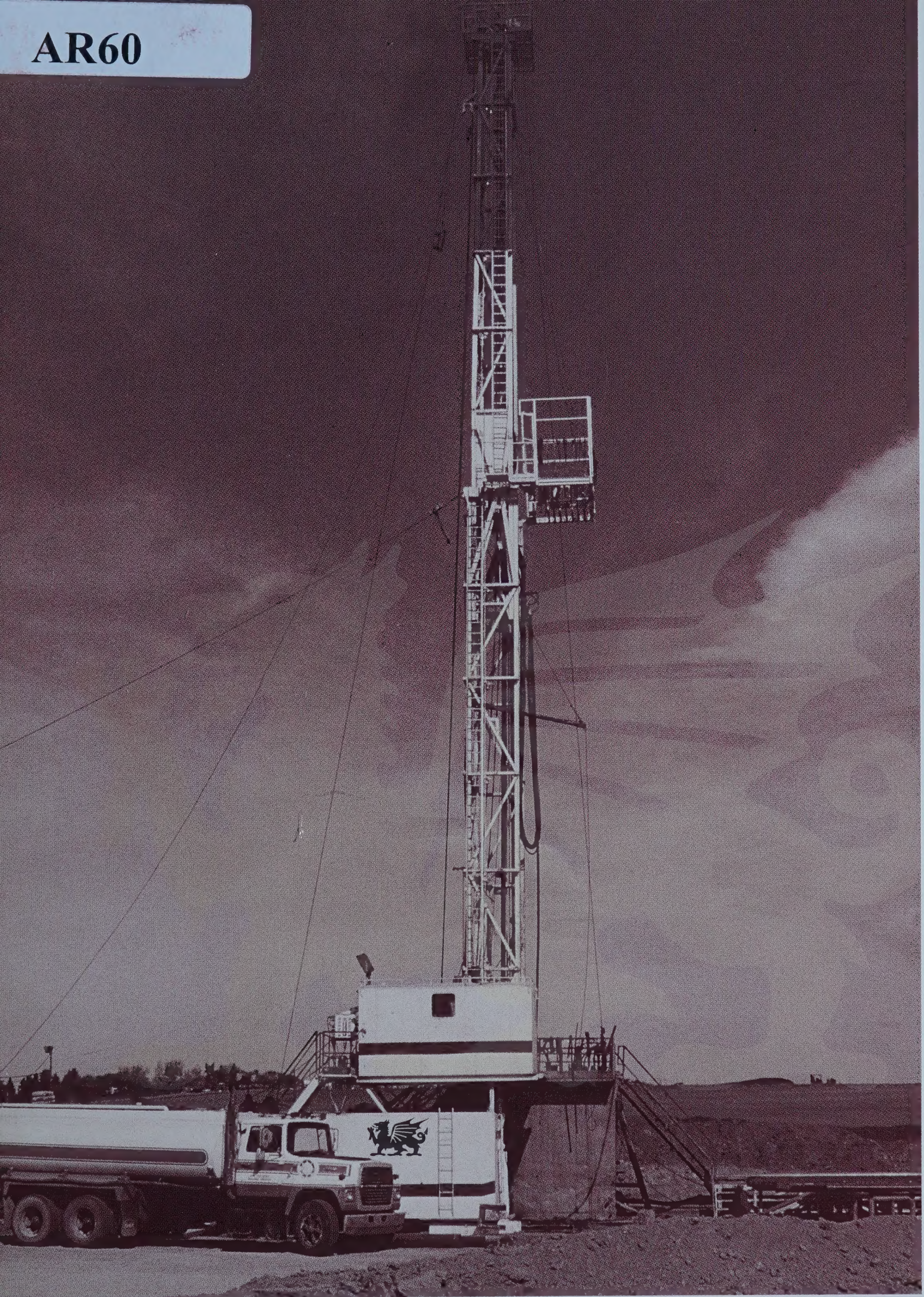

Draig Resources Ltd.

1995
Annual Report

Corporate Profile

Draig Resources Ltd. is a Canadian junior oil and gas company engaged in the acquisition, development and production of oil and natural gas reserves in Western Canada. The Company is listed on the Alberta Stock Exchange and trades under the symbol "DRG".

Cover Description

The cover, (adapted from a photograph taken by Paul Brereton), shows drilling activity on Draig's Chigwell property.

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The Annual General Meeting of Draig Resources Ltd. will be held on Wednesday, May 1, 1996 at 9:30 a.m. at the 400 Club at 710 - 4th Ave. SW, Calgary, Alberta.

Abbreviations

Boe	barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Bbls	barrels
Bpd	barrels per day
Bopd	barrels of oil per day

Highlights

FINANCIAL ($)

Year ended November 30	1995	1994	% change
Revenue before royalties			
Gas	**$ 1,094,042**	$ 1,024,291	7
Oil & NGL	**$ 762,285**	$ 485,863	57
Plant	**$ 74,101**	$ 90,430	(18)
TOTAL	**$ 1,930,428**	$ 1,600,584	21
Funds generated from operations	**$ 340,603**	$ 458,254	(26)
Funds generated from operations per share	**$ 0.04**	$ 0.05	(26)
Net earnings (loss)	**$ (181,023)**	$ 24,380	–
Net earnings (loss) per share after preferred dividend	**$ (0.02)**	$ 0.00	–
Long-tern debt	**$ 1,955,000**	$ 955,000	105
Weighted average number of shares outstanding	**9,381,767**	9,305,408	1
Capital expenditures	**$ 1,388,227**	$ 3,769,678	(63)

OPERATIONS

Production			
Natural gas- Mcf	**702,342**	505,637	39
Mcf/d	**1,924**	1,385	39
Average price/Mcf	**$ 1.56**	$ 2.03	(23)
Oil & NGL- Bbls	**38,079**	26,348	45
Bpd	**104**	72	45
Average price/Bbl-oil	**$ 22.57**	$ 20.69	9
Average price/Bbl-NGL	**$ 16.09**	$ 14.61	10
Net reserves before royalties (proven & probable*)			
Natural gas-Mcf	**7,915,255**	8,138,479	(3)
Oil & NGL-Bbls	**823,656**	488,579	69
* probable risked at 50%			
Land (acres)			
Gross	**38,800**	39,040	(1)
Net	**9,155**	8,845	4
Producing wells			
Gross	**22**	24	(8)
Net	**7.9**	7.5	5

Average Gas Production (Mcf/d)

Average Oil & NGL Production (Bpd)

President's Message to the Shareholders

This past year saw Draig Resources Ltd. concentrate its efforts on finding new crude oil reserves and increasing production. As a result of this strategy, Draig realized major growth in its oil and natural gas production rates and significant increases in its oil reserves base. At Chigwell, the Company discovered a new Leduc oil pool capable of high production rates and significant reservoir recovery. At Ferrier, our existing production quadrupled after we constructed a new pipeline connecting this natural gas property to the Strachan gas plant.

Draig is adhering to its formula for growth. The Company has developed the expertise to explore for and exploit both oil and natural gas opportunities. Our goal is to develop core areas capable of generating growth for several years and to this end, Chigwell, Ferrier, Giroux and Tony Creek each provide the Company with tremendous upside potential. As we continue to generate new prospects within our focus areas, the Company will maintain an optimum balance of oil and natural gas production. This balanced approach enhances Draig's ability to adapt quickly to changes in market fluctuations, industry conditions and commodity prices.

The following report details the financial and operating results for the year ended November 30, 1995.

Highlights:

- petroleum and natural gas sales increased to \$1,930,428, a 21 percent increase over 1994.
- cash flow was down 26 percent to \$340,603 or \$0.04 per share, down from \$0.05 per share in 1994.
- the Company experienced a loss of \$181,023 or \$0.02 per share in 1995.
- daily production averaged 296 Boe, a 41 percent increase over the 1994 average of 211 Boe.
- proven plus probable reserves on a Boe basis increased by 24 percent to 1.62 million Boe.
- the net present value of the Company's reserves increased by 32 percent to \$10,700,000 in 1995.

Financial

During 1995, revenues grew by 21 percent to \$1,930,428. Funds generated from operations during this period declined by \$117,651 to \$340,603, and the Company experienced a loss of \$181,023.

The increase in revenues is a direct result of higher production volumes and an increase in the price received for oil and natural gas liquids. The average sales price for oil was \$22.57/Bbl, up \$1.88 from 1994. The average sales price for natural gas liquids rose \$1.48 to \$16.09/Bbl, however these improvements were offset by a significant decrease in the price of natural gas. The average natural gas sales price in 1995 was \$1.56/Mcf, down \$0.47/Mcf. Natural gas prices started to improve during the first quarter of fiscal 1996, with Draig receiving an average of \$1.70/Mcf in December, 1995.

The increase in production did not translate into higher cash flow or earnings due to the drop in natural gas prices, higher expenses and an increase in depletion and depreciation charges.

The Company has already been successful in reducing expenses. Operating expenses in the fourth quarter of 1995 were \$6.30/Boe and general and administrative costs were \$1.84/Boe, down from a first-half high of \$9.03 and \$4.22/Boe respectively. The Company is also attempting to sell some properties, the proceeds of which will be applied to the line of credit to reduce interest costs.

Production

In 1995, natural gas production rose 39 percent to average 1,924 Mcf/d, while crude oil and natural gas liquids production increased 45 percent during the period to average of 104 Bpd. Draig's combined production rate for the period was an average of 296 Boe/d. At November 30, 1995 Draig was producing natural gas at a rate of 1,900 Mcf/d and crude oil and natural gas liquids at a rate of 115 Bpd for a combined rate of 305 Boe/d.

Operations

Drilling activity in 1995 was concentrated in Chigwell and Nipisi, Alberta and Southeast Saskatchewan.

Operational highlights in 1995 included the drilling of a second well at Chigwell and the discovery of a new Leduc oil pool following the shooting of a three-dimensional seismic program in the Chigwell area. As a result, Draig purchased the offsetting land and can now drill additional wells in this area.

In October 1995, Draig completed the construction of a nine-mile pipeline connecting its Ferrier, Alberta gas property to the Strachan gas plant. This allowed the natural gas production rate to increase to 8,500 Mcf/d (net 598 Mcf/d) from 2,000 Mcf/d, while natural gas liquids produced at a rate of 550 Bpd (net 39 Bpd). In October, Draig purchased

an interest in the offsetting land and can participate in a development well to be drilled into this pool.

Each property was examined with an intent to increase production and reduce operating expense. The gas pipeline was constructed at Ferrier, an oil pipeline was built at Handsworth, electric power was brought into the two wells at Chigwell, a water disposal well was also purchased in this area, and workovers were conducted on wells at Red Earth and Tony Creek.

Draig participated in the drilling of five (net 2.27) wells in 1995 resulting in four producing oil wells and one abandoned well for a success rate of 80 percent.

Reserves

The annual independent evaluation of the Company's proven and probable oil and gas reserves as of November 1, 1995 shows that oil reserves grew by 69 percent to 823,656 Bbls. Natural gas reserves declined by three percent to 7.9 Bcf, reflecting the Company's focus on discovering new oil reserves. The net present value of Draig's reserves (using escalated prices and discounted at 15 percent) is $10.7 million, an increase of 32 percent. The new reserves were added at a finding and on-stream cost of $3.18/Boe which is low for the oil and gas industry.

At November 30, 1995 the Company had an interest in 22 (7.9 net) producing wells and in 38,800 (net 9,155) acres of land.

Marketing

The majority of Draig's gas production is sold through long-term contracts to Progas Limited and Trans Canada Pipelines which helped to offset the very low spot market price for natural gas. During 1995, 84 percent of Draig's gas production was sold under these contracts at an average price of $1.64/Mcf. The remainder was sold into the Alberta spot market, which averaged $1.12/Mcf.

The Company's oil and NGLs are marketed through Gibson Petroleum Company Limited and EOTT Energy Canada Ltd., which provide Draig with ready markets and excellent prices.

Outlook

Nineteen ninety five proved to be a challenging period to operate an oil and gas company. The precipitous drop in natural gas prices has negatively affected many companies. Draig was sheltered from the full impact of low gas prices because management dedicated the majority of the Company's gas production to long term, higher priced contracts. The Company also operates the majority of its high productivity properties, which gives us control over production volumes and operating costs. Management has also made the decision to maintain a balanced oil and gas portfolio. This balanced approach improves our ability to adapt to changes in market conditions.

Management is clear on its primary objective to increase shareholder value. This can be accomplished by increasing production, decreasing expenses and increasing netbacks on a Boe basis. The Company has a competent and knowledgeable staff and has a history of low finding and on-stream costs, but it is constrained under the current market conditions and must reduce expenses. Operating costs, general and administrative costs and interest charges must decrease. This reduction in expenses will result in higher netbacks, higher cash flow and higher earnings. This translates into an increase in shareholder value.

Draig needs to maximize production from its existing properties, fully develop its core areas and continue to search for new opportunities. Development potential exists at Chigwell, Ferrier, Giroux and Tony Creek. At Chigwell a pipeline will be constructed and additional wells can be drilled. One more well can be drilled into the pool at Ferrier. A waterflood program is being implemented at Giroux. Our property at Tony Creek has several more wells to be re-completed, tied-in and placed on production.

To be successful a company needs to be creative in finding oil and gas, creative in financing projects and creative in operating properties. The Company must continue to be focused in core areas, on creating value, on our goals and objectives and on the future.

The challenges have been identified and the solutions are being implemented.

Respectfully submitted on behalf of the Board of Directors,

Leslie W. Treitz
President and Chief Executive Officer
March 4, 1996.

Draig Resources' strategy for growth has proven successful in the past year in adding oil and gas reserves at a highly competitive finding and on-stream cost of $3.18/Boe, well below the industry average. Our strategy includes internal generation and evaluation of the prospect area. This is followed by key, low-cost acquisitions to establish a base position and the exploitation of the prospect to achieve a prime producing asset. As well, Draig strives to maintain a high working interest in all internally generated prospects.

1995 ACTIVITIES

Activity in 1995 was concentrated in the areas of Chigwell and Nipisi, Alberta and Handsworth, Saskatchewan. Draig participated in the drilling of three wells (1.875 net) in fiscal 1995, resulting in two producing oil wells and one abandoned well. Two wells (0.395 net) in the Handsworth area of Saskatchewan began drilling in late November, 1994 and were completed as producing oil wells in 1995.

In December, 1994 Draig shot its second three-dimensional seismic program in the Chigwell area which culminated in the drilling of a second well on the Chigwell property and the discovery of a new Leduc oil pool with potential for 1,000,000 barrels of gross recoverable reserves.

In October, 1995 Draig participated in the construction of a pipeline connecting the Ferrier, Alberta gas property to the Strachan sour gas plant. The pipeline enabled the property's operator to increase gas production from 2,000 Mcf/d (net 141 Mcf/d) to 8,500 Mcf/d (net 598 Mcf/d) as well as increasing NGL recovery to 550 Bpd (net 39 Bpd).

ACQUISITIONS/DIVESTITURES

In 1995 Draig sold its interest in three low productivity, low interest properties which did not meet the Company's objective for growth potential.

CAPITAL EXPENDITURES

The Company participated in the drilling, completion and tie-in of five wells (2.27 net) in 1995 and two major pipeline projects and one seismic program resulting in capital expenditures of $1,677,798. Finding and on-stream costs were $3.18/Boe for proved and probable (risked at 50%) compared to $3.52/Boe in 1994.

	1995	1994
	$	$
Drilling and completions	**947,813**	2,456,091
Re-completions and workovers	**11,487**	37,557
Equipping and facilities	**524,424**	401,197
Geological and geophysical	**70,473**	45,351
Acquisition of reserves	–	635,000
Acquisition of land	**118,227**	175,334
Miscellaneous	**5,041**	19,148
	$ 1,677,465	$ 3,769,678
Disposals	**$ (289,238)**	–
Total Net Expenditures	**$ 1,388,227**	$ 3,769,678

PRODUCTION

Natural gas production during 1995 averaged 1,924 Mcf/d, an increase of 39 percent over 1994. Gas production at the November 30, 1995 year-end was 1,900 Mcf/d.

Oil and natural gas liquids production averaged 104 Bpd, up 45 percent over the previous year. At fiscal year end, oil and NGL production was 115 Bpd.

Reserves

An analysis of Draig's proven and probable reserves as of November 30, 1995 shows that oil and NGL reserves rose 69 percent during the year, while natural gas reserves dropped by three percent.

These reserve additions were calculated after deducting volumes produced during the year. The 1995 reserves were independently evaluated as at November 1, 1995 by Status Engineering Associates Ltd. and are summarized in the table below.

Marketing

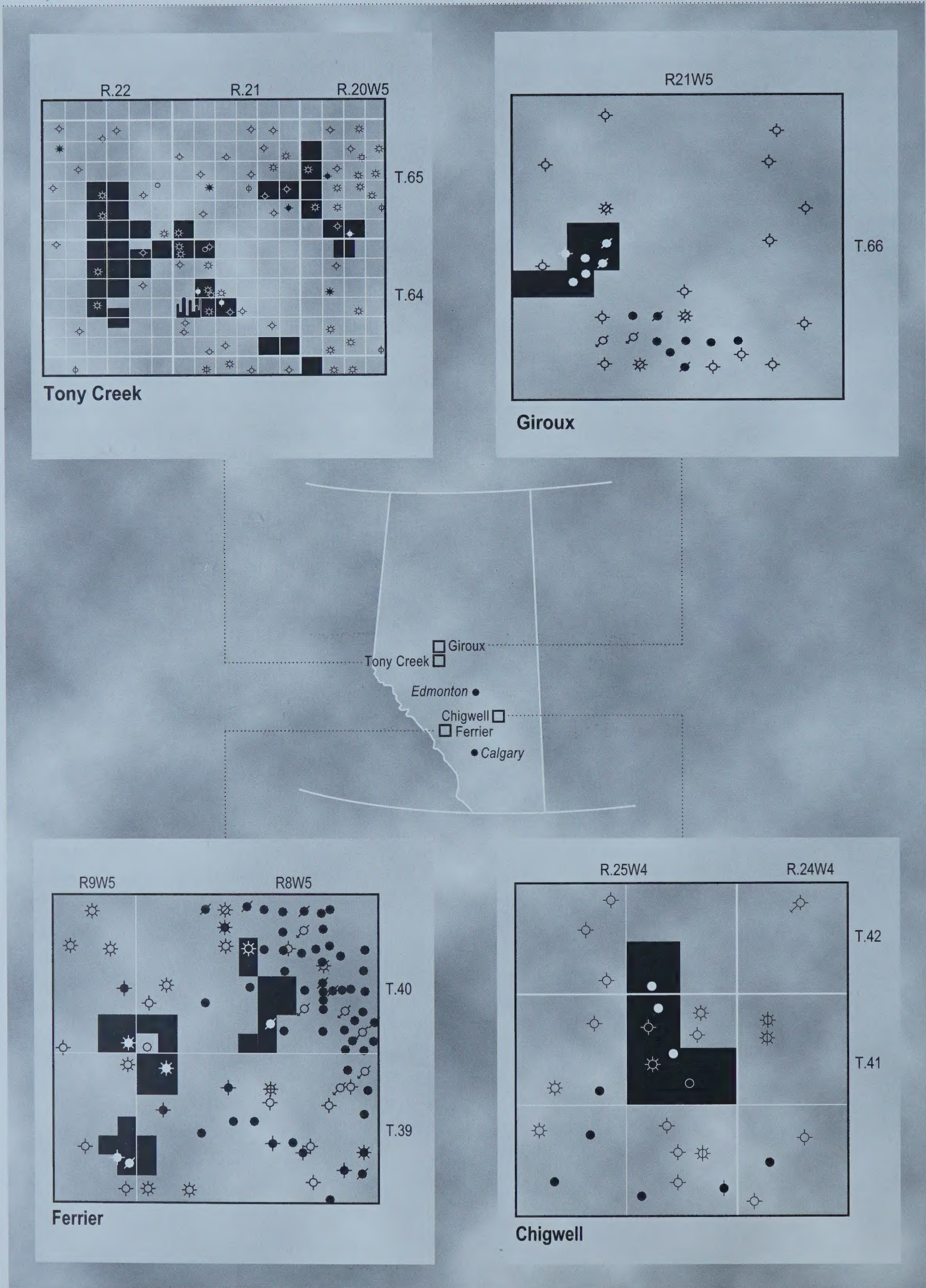
Draig's primary natural gas production is purchased through long-term contracts with Progas Limited and Trans Canada Pipelines. During 1995, 84 percent of Draig's natural gas production was sold under these contracts, while the remainder was sold on the spot market or came from non-operated properties.

The average price received for natural gas in 1995 was $1.56/Mcf, down 23 percent from 1994. However, Draig's long-term contracts sheltered the Company's natural gas production from the very low prices experienced on the spot market during spring and summer of 1995.

Draig's oil and NGLs continue to be marketed through Gibson Petroleum Company Limited and EOTT Energy Canada Ltd. The average price received for the year was $22.57/Bbl of crude oil and $16.09/Bbl for NGLs.

Reserves

	Oil & Liquids (barrels)			Gas (millions of cubic feet)		
	Proven	Probable	Total	Proven	Probable	Total
At November 30, 1994	386,979	101,600	488,579	6,541	1,597	8,138
Additions	99,756	273,400	373,156	961	(482)	479
Production	(38,079)	0	(38,079)	(702)	0	(702)
At November 30, 1995	448,656	375,000	823,656	6,800	1,115	7,915
% CHANGE	16		69	4		(3)


R.22
R.21
R.20W5
T.65
T.64
Tony Creek
R21W5
T.66
Giroux
Giroux
Tony Creek
Edmonton
Chigwell
Ferrier
Calgary
R9W5
R8W5
T.40
T.39
Ferrier
R.25W4
R.24W4
T.42
T.41
Chigwell

Tony Creek, Alberta

Draig continues to hold a significant land base, gas production and plant ownership (18 percent) in this area. During 1995, however, the operatorship portion (68 percent) of the property was acquired by an active industry partner, and as a result there are major plans underway for production improvements and reserve additions.

Presently the plant is processing 8,000 Mcf/d, from which Draig receives 18 percent of the gas processing revenue. Since taking over the plant, the operator has conducted a well workover which boosted gas production from the property by 2,500 Mcf/d (Draig net 450 Mcf/d).

Draig will benefit from the new operator's aggressive exploration and development strategy which we believe will result in both new gas production and additional gas processing revenue.

Ferrier, Alberta

In December, 1993 Draig purchased an average interest of 13 percent in 4,320 acres and a seven percent interest in two wells producing a total of 2,000 (net 141) Mcf/d. At the time, production was restricted by the sour gas content of the reservoir. In October, 1995 the Company participated in the construction of nine miles of pipeline to the Strachan sour gas plant. This move enabled production to rise to 8,500 Mcf/d (net 598 Mcf/d). In addition, the Strachan plant extracts 65 Bbls of NGLs per million cubic feet of gas, netting Draig 39 Bpd.

In a recent Crown land sale, an offsetting half-section was acquired, giving Draig a pooled interest of 17.5 percent in the gas spacing unit. The operator has indicated plans for an additional drilling location for 1996.

Giroux, Alberta

Draig has established a position in this area with the purchase of minor existing production from the Giroux Lake Viking `D' oil pool and an average of 80 percent in 1,280 acres.

Based on a waterflood in the adjacent Giroux Lake Viking `A' oil pool (1.7 million Bbls have been recovered to date), Draig conducted its own special core analysis and a feasibility study. Results indicate that the Giroux Lake Viking `D' pool is an excellent candidate for a successful waterflood. An existing well will be used for the water injection and the gross production capability should increase from 24 Bpd to 120 Bpd. The next stage of development would include several in-fill locations.

Draig has structured a deal in which a third party is providing the capital costs required for this project in return for a farm-in on Draig's working interests.

Chigwell, Alberta

A very significant Leduc oil discovery resulted from the interpretation of the second three-dimensional seismic program conducted by Draig in December, 1994. Originally thought to be a routine pool extension, the seismic detailed a new, undrained oil reservoir. Draig's second well in the area has been drilled into this reservoir and currently produces at 125 Bpd.

Draig has acquired interests in two additional quarter sections in this area and an existing well to be utilized as a water disposal facility. The potential now exists for the Company to fully develop this property by additional drilling.

Immediate plans for Chigwell include drilling of the third well, pipeline construction to an oil processing facility and completion of the water disposal well. These measures will significantly reduce operating costs per barrel and enable all three wells to be placed on full production.

This management's discussion and analysis of the financial condition and results of operations of Draig for the years ended November 30, 1995 and November 30, 1994 should be read in conjunction with the financial statements contained in this annual report.

Overview

In 1995 Draig had a conservative capital expenditure program of $1,677,465, a decrease of 55 percent from 1994, partially offset by sales of non-core properties of $289,238. The success of this capital expenditure program resulted in increased proved and probable (risked at 50 percent) reserves of 421,068 barrels of oil equivalent (Boe); however results from operations have not achieved equivalent success primarily due to significant reserves not yet on production, lower gas prices and initial high operating costs in some areas.

Financial

For the year ended November 30, 1995 funds generated from operations amounted to $340,603 or $0.04 per common share, down from $458,254 or $0.05 per common share in 1994; and net operations decreased to a loss of $181,023 or $(0.02) per common share.

Oil and gas revenues before royalties increased by 21 percent to $1,930,428 compared to $1,600,584 in 1994. The increased revenue is attributable to higher production volumes of 108,313 (296 per day) Boe in 1995, compared to 76,912 (211 per day) Boe in 1994 partially offset by lower average gas prices of $1.56/Mcf in 1995 compared to $2.03/Mcf in 1994. The Company achieved the higher production volumes as a result of having a full year of production in the Whitecourt area, enhanced production in the Ferrier area and putting a second well on production in the Chigwell area. At November 30, 1995 the Company's gross revenue was derived 39 percent from oil and liquids, up from 30 percent in 1994, 57 percent from gas and 4 percent from gas processing. Once Chigwell is on full production the Company will be deriving over 50 percent of its gross revenue from oil and liquids, thereby taking advantage of the continuing high oil prices.

Royalties, net of ARTC, for 1995 amounted to $299,642 or 16 percent of gross oil and gas revenue, compared to $333,092 or 22 percent of gross oil and gas revenue in 1994. The decrease in net royalties primarily resulted from the government setting lower gas crown royalty rates as a reflection of the lower gas prices.

The Company continued to have high operating costs on its oil properties especially in the first half of 1995. To reduce these costs the Company undertook electrification of some wells and has purchased a well suitable for water disposal. In addition, the Company is negotiating for a pipeline to be installed in Chigwell to further reduce operating costs to $4.25/Boe for 1996.

General and administrative expenses increased from $274,432 in 1994 to $321,761 in 1995. The general and administrative expenses per Boe have declined from $3.57 in 1994 to $2.97 in 1995. Projected production growth without corresponding increases in general and administrative costs should result in further declines in general and administrative expenses on a Boe basis.

Netbacks from operations (per Boe)

	1995	1994
	$	$
Petroleum and natural gas sales	**17.14**	19.63
Royalties, net of ARTC	**(2.77)**	(4.33)
Operating expense	**(7.29)**	(6.19)
General and administrative	**(2.97)**	(3.57)
Interest	**(1.27)**	(0.02)
Other	**0.30**	0.44
	$ 3.14	$ 5.96

At November 30, 1995 Draig had tax pools aggregating $4,600,000 which are available for deduction for income tax purposes in future years. Of this amount, $1,500,000 is eligible for deduction in 1996 and the Company does not expect to pay either federal or provincial taxes in 1996. However, based on projected production growth and product prices, the Company will become taxable in 1997.

Capital Expenditures

The Company participated in the drilling, completion and tie-in of five wells (2.27 net) in 1995 and two major pipeline projects and one seismic program resulting in capital expenditures of $1,677,798. Finding and on-stream costs were $3.18/Boe for proved and probable (risked at 50 percent) compared to $3.52 in 1994.

	1995	1994
	$	$
Drilling and completions	**947,813**	2,456,091
Re-completions and workovers	**11,487**	37,557
Equipping and facilities	**524,424**	401,197
Geological and geophysical	**70,473**	45,351
Acquisition of reserves	–	635,000
Acquisition of land	**118,227**	175,334
Miscellaneous	**5,041**	19,148
	$ 1,677,465	$ 3,769,678
Disposals	**$ (289,238)**	–
Total Net Expenditures	**$ 1,388,227**	$ 3,769,678

Liquidity and Capital Resources

Draig financed its operations through a combination of cash flow from operations and an increase in the bank line of credit to $2,000,000 of which $1,955,000 was drawn down at year end. The Company's bank facility undergoes an annual review to determine the borrowing capacity based on current reserves and product prices. The Company will be financing its future capital plans through internally generated cash flow and through allowing external partners to participate in projects at terms beneficial to the Company.

Business Risks and Prospects

Oil and gas exploration and development involves many risks which may not be overcome even with the combination of extensive technical experience and knowledge, and careful evaluation. Draig attempts to mitigate these risks by using highly qualified staff and up to date technology. The marketability and price of existing oil and gas production as well as production of reserves which will be discovered or acquired by the Company will be affected by numerous factors beyond its control. These factors include demand for oil and gas, market fluctuations, the Canada/US dollar exchange rate, the proximity and capacity of oil and gas pipelines and processing facilities, and government regulations.

The Company has entered into various gas contracts to diminish the effect of fluctuating gas prices as more fully discussed in the Operations Review. The following table shows the Company's estimate of its current sensitivities to changes in prices in 1996 based on estimated average production of 160 Bbls of oil and liquids per day and 2100 Mcf of gas per day. These production levels are based on wells already drilled in which the Company has already established a working interest.

Environmental Risks

Draig conducts its business in compliance with all provincial and federal environmental regulations and has implemented and documented a safety manual and an emergency response plan to ensure that prompt action is taken in the event of an accident. The Company has made a cumulative accounting provision for site restoration of $70,288 using the unit-of-production method based upon estimates from independent engineers.

Oil & Gas Price Sensitivity

	Change in Funds from Operations	Change in Funds from Operations per Share	Change in Earnings	Change in Earnings per Share
Cdn. $1.00 oil price change	$ 28,230	$ 0.003	$ 18,914	$ 0.002
Cdn $0.10 gas price change	$ 57,476	$ 0.006	$ 38,509	$ 0.004

Auditors' Report to the Shareholders

We have audited the balance sheets of Draig Resources Ltd. as at November 30, 1995 and 1994 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
January 29, 1996

Balance Sheets

November 30, 1995 and 1994

		1995		1994
Assets				
Current asset:				
Accounts receivable	$	277,003	$	431,643
Property, plant and equipment (note 2)		5,317,968		4,420,509
	$	5,594,971	$	4,852,152

Liabilities and Shareholders' Equity

		1995		1994
Current liabilities:				
Bank indebtedness (note 3)	$	24,276	$	56,186
Accounts payable		837,365		880,251
		861,641		936,437
Long-term debt (note 4)		1,955,000		955,000
Provision for site restoration costs		70,288		39,430
Shareholders' equity:				
Share capital (note 5)		2,910,134		2,910,134
Retained earnings (deficit)		(202,092)		11,151
		2,708,042		2,921,285
Contingency (note 8)				
	$	5,594,971	$	4,852,152

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Statements of Operations and Deficit

Years ended November 30, 1995 and1994

	1995	1994
Revenue:		
Oil and gas sales, net of royalties	$ 1,562,757	$ 1,179,813
Gas processing, net of expenses	25,871	30,608
Interest income	–	16,206
	1,588,628	1,226,627
Expenses:		
Operating	789,103	476,374
Depletion and depreciation	521,626	341,423
General and administrative	321,761	274,432
Interest	137,161	17,567
	1,769,651	1,109,796
Earnings (loss) before income taxes	(181,023)	116,831
Income taxes - deferred	–	92,451
Net earnings (loss)	(181,023)	24,380
Retained earnings, beginning of year	11,151	18,991
Preferred share dividends	(32,220)	(32,220)
Retained earnings (deficit), end of year	$ (202,092)	$ 11,151
Earnings (loss) per common share	$ (0.02)	$ 0.00

See accompanying notes to financial statements.

Statements of Changes in Financial Position

Years ended November 30, 1995 and1994

	1995	1994
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (181,023)	$ 24,380
Items not affecting cash:		
Depletion and depreciation	521,626	341,423
Deferred income taxes	–	92,451
Funds generated from operations	340,603	458,254
Change in non-cash working capital	111,754	227,735
	452,357	685,989
Financing:		
Long-term debt	1,000,000	955,000
Common shares issued	–	72,425
Dividends paid	(32,220)	(32,220)
	967,780	995,205
Investments:		
Property, plant and equipment additions	(1,677,465)	(3,769,678)
Proceeds on disposal of oil and gas properties	289,238	–
	(1,388,227)	(3,769,678)
Increase (decrease) in cash	31,910	(2,088,484)
Cash, beginning of year	(56,186)	2,032,298
Cash, end of year	$ (24,276)	$ (56,186)
Funds generated from operations per share	$ 0.04	$ 0.05

Cash consists of cash and bank indebtedness.

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended November 30, 1995 and 1994

Draig Resources Ltd. is engaged in oil and gas exploration, development and production and its shares are listed on the Alberta Stock Exchange.

1. Significant accounting policies:

(a) Oil and gas operations:

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisitions, geological and geophysical costs, carrying charges for non-producing properties, costs of drilling both productive and non-productive wells, production and gathering equipment, and administrative costs directly associated with these activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a material change in the rate of depletion.

The capitalized costs together with estimated future capital costs associated with development of proven reserves are depleted and depreciated using the unit-of-production method which is based on proven oil and gas reserves before royalties as determined by the Company and independent engineers. The cost of significant unevaluated properties is excluded from the depreciation and depletion base. For purpose of the depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure based upon their relative energy content.

The capitalized costs less accumulated depletion and depreciation are limited to an amount equal to the estimated future net revenue from proven reserves (based on prices and costs at the balance sheet date) less estimated future general and administrative expenses, financing costs, income taxes and estimated future abandonment and site restoration costs.

(b) Flow-through shares:

The deductions for income tax purposes of expenditures related to exploration and development activities funded by flow-through share arrangements are renounced to shareholders in accordance with income tax legislation. Oil and gas properties and share capital are reduced by the estimated value of the renounced tax deductions when the expenditures are incurred.

(c) Site restoration costs:

Estimated future removal and site restoration costs are provided for over the life of the proven reserves before royalties on a unit-of-production basis. Costs are estimated each year by the Company and independent engineers based upon a review of current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation expense and actual removal and site restoration expenditures are charged to the accumulated provision account as incurred.

(d) Joint activities:

Substantially all of the exploration and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

(e) Depreciation:

Gas plant and equipment are recorded at cost and are depreciated over the useful life of the assets.

(f) Per share data:

Per share amounts are calculated based on the weighted average number of shares outstanding during the year. Fully diluted per share amounts are not disclosed as the effect of the exercise of the options, warrants and the conversion of preferred shares would not be materially dilutive.

2. Property, plant and equipment:

November 30, 1995		Cost		Accumulated depletion and depreciation		Net book value
Oil and gas properties and well equipment	$	6,084,083	$	874,068	$	5,210,015
Gas plant and equipment		133,742		25,789		107,953
	$	6,217,825	$	899,857	$	5,317,968

November 30, 1994		Cost		Accumulated depletion and depreciation		Net book value
Oil and gas properties and well equipment	$	4,725,574	$	400,118	$	4,325,456
Gas plant and equipment		112,691		17,638		95,053
	$	4,838,265	$	417,756	$	4,420,509

Oil and gas properties with a net book value of $842,353 (1994 - $923,228) have no cost base for income tax purposes. This results from the renunciation of income tax deductions to flow-through share investors. As at November 30, 1995, petroleum and natural gas property costs include $557,412 (1994 - $360,560) related to undeveloped properties which are excluded from depletion calculations until such time as the properties are evaluated.

During the year, the Company capitalized $119,564 (1994 - $72,900) of administrative costs pertaining to the Company's exploration, development and property acquisition activities.

3. Bank indebtedness:

Bank indebtedness consists of cheques issued in excess of cash in bank.

4. Long-term debt:

The Company has a demand credit facility of $2,000,000 with a Canadian chartered bank. It is secured by a $5,000,000 floating charge debenture, a $5,000,000 first fixed charge debenture and a general security agreement. Loans under this facility bear interest at the bank's prime rate plus 3/4%. Although loans under this facility are due on demand, no principal repayments are required in the next year providing the Company satisfies the bank's requirements under the loan agreement.

5. Share capital:

(a) Authorized:

Unlimited number of common voting shares without nominal or par value.

Unlimited number of First Preferred Shares issuable in series. With respect to payment of dividends and distribution of assets in the event of dissolution winding up or liquidation of the Company these shares shall be entitled to preference over the common shares and the shares of any other class ranking junior to the First Preferred Shares.

Unlimited number of Second Preferred Shares issuable in series. With respect to the payment of dividends and distribution of assets in the event of dissolution, winding up or liquidation of the corporation these shares shall rank subordinate to the First Preferred Shares and shall be entitled to preference over the common shares.

(b) Issued and outstanding:

One series of First Preferred Shares has been issued being the First Preferred Shares Series A which bear a 9% cumulative dividend, payable quarterly. These shares are non-voting and are convertible at the option of the holder into common shares on the basis of one common share for one preferred share; and at the option of the Company if the most recent five-day weighted average trading price of the common shares exceeds $1.75 per common share on the same basis.

	First Preferred Shares		Common Shares		
	Number	Amount	Number	Amount	Total
November 30, 1993	447,500	$ 358,000	9,256,855	$ 2,908,010	$ 3,266,010
Issued for cash:					
Pursuant to exercise of stock options			27,500	2,750	2,750
Issued for properties			97,412	69,675	69,675
Tax effect on flow-through share funds expended				(520,752)	(520,752)
Deferred tax benefit				92,451	92,451
November 30, 1994 and 1995	447,500	$ 358,000	9,381,767	$ 2,552,134	$ 2,910,134

There are no Second Preferred Shares issued.

(c) Flow-through shares:
In 1993, the Company issued 2,859,575 flow-through shares on which it was required to renounce income tax expenditures of $1,750,660. The Company made expenditures of these funds of $1,175,511 in 1994 and $575,149 in 1993. All required renunciations were made in accordance with the flow-through agreements.

(d) Stock options:
The Company has established a stock option plan whereby officers, directors, employees and consultants may be granted options to purchase common shares up to ten percent of the issued and outstanding common shares. As at November 30, 1995, the Company had 657,500 options outstanding exercisable at prices ranging from $0.10 to $0.27 expiring from June 30, 1997 to January 24, 1998. The Alberta Stock Exchange granted permission to the Company to reprice 350,000 options from $0.432 to $0.27 per share.

6. Income taxes:

The provision for income taxes differs from the result which would have been obtained by applying the combined federal and provincial income tax rates (44%) to the Company's income or losses before income taxes. The difference results from the following:

	1995	1994
Expected income tax provision	$ **(79,650)**	$ 51,406
Depletion related to property with no tax base	**35,585**	30,013
Non-deductible Crown payments, net	**72,329**	102,656
Resource allowance	**(79,677)**	(92,861)
Other	**576**	1,237
Unrecognized benefit of losses	**50,837**	–
Provision for income taxes	$ **–**	$ 92,451

7. Commitment:

The Company is committed to rental lease payments through to 1997. Minimum payments are:

1996	$ 24,149
1997	6,805
1998	278

The Company recovers a portion of lease payments through other subleases.

Corporate Information

Directors

Carole E. Atkinson (1)
Vice President Exploration,
and Corporate Secretary
Draig Resources Ltd.
Calgary, Alberta

Garry Tether (1)
Vice President
Operations & Treasurer
Draig Resources Ltd.
Calgary, Alberta

Leslie W. Treitz
President and
Chief Executive Officer
Draig Resources Ltd.
Calgary, Alberta

Officers and Senior Management

Leslie W. Treitz
President and
Chief Executive Officer

Carole Atkinson
Vice President Exploration
and Corporate Secretary

Garry Tether
Vice President
Operations and Treasurer

Ailsa Brereton, C.A.
Controller

(1) Member of Audit Committee

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Calgary, Alberta

Bankers

Royal Bank of Canada
Calgary, Alberta

Corporate Counsel

Burnet Duckworth & Palmer
Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange
Trading Symbol: DRG

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